

# City of Rockville Retirement Board

November 20, 2009

**PRESENT:** Alex Espinosa, Chairperson; Gregory Hazlett, Citizen Representative; Anita McCombs, AAME Representative; Phyllis Marcuccio, Councilmember; Carlos Vargas for City Manager; Cpl. Chris Peck, FOP Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Tim Peifer, Financial Systems Manager; Daisy Harley, Personnel Administrator; Debra Daniel, City Attorney; Mark Pierzchala, Councilmember elect; Bridget Newton, Councilmember elect; as well as George Kiriakos and Taylor Dabrowski, Segal Advisors.

**ABSENT:** Kyle France, Union Representative

The meeting commenced at 10:05 a.m. with introductions.

Cpl. Peck arrived at 10:15.

Mr. Espinosa started the meeting with Item VI.

## **VI. Review of Quarterly Investment Performance Report:**

Mr. Kiriakos started with a presentation on the third quarter investment performance for the pension fund. He reviewed the Economic Market conditions. He stated that he had recently attended a seminar where Chairman of the Federal Reserve, Ben Bernanke, spoke in regards to the economy. Mr. Kiriakos and Ms. Dabrowski then reviewed the Pension Fund results through October 31, 2009. As of October 31, 2009, the assets were valued at approximately \$48.1 million. At the October 15, 2009 meeting Segal recommended considering rebalancing the assets back to the target allocation, which was done.

Councilmember Marcuccio arrived at 10:35.

Next, Mr. Kiriakos and Ms. Dabrowski reviewed and discussed the Thrift Fund performance. The vendor search remains on hold pending the conversation with Principal with respect to the Benefit Index Issues. Currently, the Principal Stock Emphasis Fund and the Principal Lifetime Funds are on the Watchlist due to the under performance. Segal recommended retaining these Funds on the Watchlist. In addition, Segal recommended placing the Principal Small Company Value Fund and the Principal International Stock Fund on the Watchlist as of September 30, 2009. Finally, they noted that on October 19, 2009, the Principal Mid Cap Stock Fund was replaced with the Principal Mid Cap S&P 400 Index Fund because Principal closed the Mid Cap Stock Fund. Mr. Vargas asked what would be the criteria for putting a fund on the Watchlist. Ms. Dabrowski confirmed that it was if a fund underperformed for four quarters in a row. Mr. Vargas made motion to accept Segal's report as presented and accept their recommendations. Mr. Hazlett seconded it. All were in favor. C

## **I. Approval of Minutes from Meeting of October 15, 2009:**

There were two changes noted that need to be made to the minutes. Debra Daniel's name needs to be added as attending and the spelling of Daisy's first name needs to be corrected. Anita made a motion to approve the minutes pending corrections and Mr. Hazlett seconded it. All were in favor. C

## **IV. Retirement Board Duties and Responsibilities – Fiduciary Obligations:**

### **V. Plan Amendment – Retiree COLA for 2010:**

Next Mr. Espinosa decided that Items IV and V would be discussed together. Mr. Espinosa asked Ms. Daniel to come up with language representing the responsibility and position of the Board in regards to COLA's. He said that concern has been raised if the duties of the Board are inconsistent: i.e., does awarding a COLA conflict with the Board's responsibility to protect and enhance plan assets and investments of funds. He inquired whether the Board made a recommendation to award or not to award a COLA if it would have to be presented to the Mayor and Council. Mr. Cohen said that no presentation to the Mayor and Council is necessary if the Board supports staff recommendation to not award a COLA. Mr. Cohen said that he would just send a memo to the Mayor and Council and if they wished to discuss it they would inform Mr. Ullery and then he would put it on the agenda. Mr. Cohen said that last year was the first time in five years that a COLA was not recommended and this year would be the second. Mr. Espinosa said that there was no real criteria

to arrive at a COLA adjustment. Councilmember Marcuccio said that the only criteria used in the past was if things were going well saw no reason not to give and now that things are not so good then don't give. Mr. Espinosa stated that there is also no provision in the plan to award it either. Ms. Daniel said in moving forward the Board may want to come up with a procedure or make it part of the plan to have direction for this matter. Mr. Espinosa made a motion to support staff recommendation and not award a COLA and Mr. Hazlett seconded it. Unanimous. C

Segal was asked to step out of the room to discuss Item II.

## **II. Segal Advisors Contract:**

After a lengthy discussion regarding Segal's performance and the pros and cons of continuing to retain them as Pension Investment Advisors, the Board decided to send Segal a letter with intent to terminate them for Cause under Section 8 of the current contract. The Board chose this Section to allow and give Segal an opportunity to correct and cure certain performance issues noting that Segal had been placed on the Board's "watchlist" in June 2009. The Board asked that a list of performance issues that needed to be remedied by Segal be circulated to the Board prior to sending it to Segal. The Board listed the following items:

1. Segal should change its lead consultant;
2. Segal shall perform the actuarial review as recommended to the Board at its own cost;
3. Segal shall place calls to each of Principal's lead portfolio managers and provide notes of the calls;
4. Segal will not contact Board members directly;
5. Segal will deliver Board materials timely for inclusion in the Board packets;
6. Segal will improve its working relations with Principal Financial Group;
7. Segal will improve its communication with staff;
8. Segal will work with Principal to renegotiate contract in regards to the Benefit Index.

A motion was made for staff to forward to the Board a list of these milestones. One opposed.

Segal was brought back in to discuss Item III.

## **III. Principal Contract – Benefit Index:**

Segal discussed the options with respect to the Benefit Index. They put together a spreadsheet with four potential options. In addition, they reviewed the options on the Principal "platform" (options that would satisfy the Benefit Index). With respect to the Fixed Income options, there is one option in addition to the current portfolio, which is the PIMCO Total Return Bond Fund. Principal wants to charge 87 basis points, which is the top 5th percentile of fees for fixed income managers (1st being the highest and 100th being the lowest). With respect to the International Equity option, the only other option is the Pyramis International Equity allocation, which Principal charges 130 basis points. Again, this would put this portfolio in the top 5th percentile of fees for fixed income managers (1st being the highest and 100th being the lowest). It also does not have the Emerging Markets allocation, which was the original goal and part of the asset allocation strategy. Therefore, Segal would not recommend either one of these portfolios given the reasons detailed above. Segal also reviewed the memo, which outlined a recommendation to audit the Principal Valuation Benefit Index Calculation and the Funded Status of the 88 participants. After a lengthy conversation, City (Mr. Cohen on behalf of the Board) is going to engage Principal in negotiations regarding the calculation. From there they will determine if an audit is necessary.

Mr. Cohen will follow up with Mr. Kiriakos regarding the retention of Segal Advisors.

The meeting was adjourned at 12:25 p.m.